Treasury Inspector General for Tax Administration

BUSINESS CASES FOR INFORMATION TECHNOLOGY PROJECTS REMAIN INACCURATE

Issued on January 25, 2007

Highlights

Highlights of Report Number: 2007-20-024 to the Internal Revenue Service Chief Information Officer.

IMPACT ON TAXPAYERS

In this follow-up review, the Treasury Inspector General for Tax Administration determined the Internal Revenue Service (IRS) business cases used to manage and fund specific information technology investments remain inaccurate and unreliable, resulting in potential waste and mismanagement of taxpayer dollars.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS took effective corrective actions to address the recommendations in our previous audit report, *Business Cases for Information Technology Projects Need Improvement* (Reference Number 2005-20-074, dated April 2005). Due to the number and significance of the conditions reported in the April 2005 report, the Treasury Inspector General for Tax Administration concluded the business cases could not be relied on to manage and fund the IRS' information technology projects.

WHAT TIGTA FOUND

The IRS took actions to address the weaknesses cited in our previous report; however, most of the weaknesses remained unresolved. Specifically: (1) project costs were still being reported inaccurately, (2) progress on development projects continued to be measured inaccurately, (3) the software used to prepare business cases continued to contribute to inaccuracies in the business cases, and (4) not all IRS major systems were accounted for in the IRS 2007 budget submission and a business case was not prepared as required. Senior IRS executives and Department of the Treasury and Office of Management and Budget officials still cannot rely on the data in IRS business cases to manage and fund IRS projects.

WHAT TIGTA RECOMMENDED

The Chief Information Officer should (1) provide increased oversight to ensure Project Managers include complete and realistic cost estimates for their projects; (2) coordinate with the Department of Treasury Capital Planning and Investment Control office to follow Office of Management and Budget guidance requiring allocation of all management and labor costs to specific projects; (3) provide additional oversight of Project Managers to ensure sufficient care is taken in developing and reporting progress data; (4) ensure reviews are conducted to determine whether contractors' cost and schedule procedures comply with industry standards; (5) coordinate with the Department of the Treasury Capital Planning and Investment Control office to correct the business case software system so project costs are reported consistently; (6) implement access controls to ensure only authorized users have access to the business case system; and (7) ensure the Director, Capital Planning and Investment Control, reviews the IRS Federal Information Security Management Act Master Inventory of major systems annually to ensure business cases are prepared for required projects.

In their response to the report, IRS officials stated they agreed with all of the recommendations, have taken some corrective actions relating to recommendations 1 and 3, and have plans to complete corrective actions for all recommendations by October 2007. The Chief Information Officer did not concur with our outcome measures reported and disagreed that the IRS was putting millions of taxpayer dollars at risk. We believe the outcome measures claimed in the report are appropriate because the business cases were based on inaccurate, incomplete, and inconsistent cost information. Unreliable cost information reduces the usefulness of the business cases and inhibits management's ability to make fully informed project finance decisions, potentially putting millions of taxpayer dollars at risk.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

http://www.treas.gov/tigta/auditreports/2007reports/200720024fr.pdf.